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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 29, 2005

The head of the EIA, Guy Caruso said that although the market needs to closely watch oil products, particularly distillate stocks, there is still time for inventories to build before the fourth quarter. He said fundamentals along with underlying market speculation will continue to keep prices strong at least for the next 18-24 months. He said oil prices will average about \$53/barrel. The head of the EIA also stated that there was far more upside potential in the oil market and that downside risks were far fewer, citing ongoing political tension as a factor to keep prices strong. He said also said that even though crude inventories are showing signs of improvement, forward demand cover is still too low. He added that any incremental crude capacity due to come onstream this year is likely to be absorbed by world demand. However he stated that prices can come under pressure if there is a slowdown in global economic growth.

Market Watch

The President of Saudi Aramco, Abdallah Jum'ah said the oil production has not been affected despite the departure of some foreign workers following attacks by terrorists. He said Saudis make up 86% of the work force in the company. While terrorist attacks have not directly hit oil facilities, terrorists linked to al-Qaeda have attacked oil related targets. Some experts say that because al-Qaeda's long term goal is to run Saudi Arabia, it would not do anything to seriously jeopardize the oil industry. However Saudi Aramco's President is not taking any chances. He said security drills have been conducted recently and new measures have been taken, including stricter inspections and the deployment of government forces around oil installations. He also stated that special security measures have been adopted in the company's residential compounds.

The governor of the Saudi Arabian Monetary Agency, Hamad al-Sayyari, stated that high oil prices have not yet had an impact on the world economy. However it may eventually curb growth and encourage the use of other energy sources. He reiterated Saudi Arabia's preference for a stable oil price which balances the interests of producers and consumers, without specifying a target price.

Saudi Arabia's King Fahd remains in stable condition in a hospital, according to a medical source. He was responding to rumors that King Fahd had died.

Saudi Arabia's ambassador to the US, Prince Bandar bin Sultan, resigned after more than 20 years in the post. The embassy in Washington has sought to play down rumors of his departure saying merely that he is on holiday. However Saudi officials have confirmed that he tendered his resignation.

Former Iraqi Oil Minister Thamir al-Ghadhban said Baghdad will need \$25 billion in foreign investment over the next five to six years to rebuild its energy sector. Iraq is targeting daily production of 2.5 million bpd by the end of 2005, increasing to 3 million bpd by the end of 2006 and 6 million bpd by 2012.

The US economy grew faster than previously thought in the first three months of the year. Growth was revised up from 3.5% to 3.8%, unchanged from the fourth quarter of last year. Meanwhile the personal consumption deflator excluding food and energy was revised down from 2.2% to 2%.

Separately, an EIA analyst said the increase in distillate stocks is good news for consumers facing record high prices. He said he is encouraged by the recent builds but added that it does not yet qualify as a significant improvement.

Indonesia's Mines and Energy Minister Purnomo Yusgiantoro said OPEC will decide on a further increase of its official output ceiling soon. He however declined to say exactly when OPEC will decide to increase its production by a further 500,000 bpd. Indonesia's OPEC Governor Meizar Rahman added that OPEC President Sheikh Ahmad Fahad al-Ahmad al-Sabah has discussed the plan with Indonesia's Oil Minister over the phone.

Meanwhile Venezuela's Energy Minister said Venezuela does not believe an additional 500,000 bpd production quota increase will help ease high oil prices. He said Venezuela sees no need for an increase as there is limited capacity to refine more oil.

The IEA urged OPEC to increase its oil production to help prevent prices from continuing to rise. It also called on consuming countries to implement energy saving policy and provide incentives to improve the attractiveness of investment in the oil sector. He warned that high oil prices are hurting economic growth and that the burden will increase if governments fail to act on supply. The IEA said growth in oil demand is expected to exceed 2% for a second year. Oil demand is expected to increase to a record 86.4 million bpd in the fourth quarter.

The chairman of Cambridge Energy Research Associates, Daniel Yergin, said the election of a conservative president in Iran could mean declining oil production in the country. He said there could be less investment in Iran. President elect Mahmoud Ahmadinejad said on Saturday that he would favor domestic oil companies against foreign companies in awarding contracts. Declining investment could have a serious impact on world oil markets at a time when demand is expected to continue growing while output in Russia slows and Iraq continues to struggle against insurgency.

The EIA reported that US inventories of propane built by 2.544 million barrels to 49.559 million barrels in the week ending June 24th. It reported that inventories in the East Coast built by 21,000 barrels to 3.4 million barrels. It also reported that inventories in the Midwest built by 1.008 million barrels to 16.711 million barrels while inventories in the Gulf Coast built by 1.535 million barrels to 28.112 million barrels.

Refinery News

A coker unit at Valero's Texas City, Texas refinery was shut on Tuesday. The unit is scheduled to remain shut for two to three days of routine maintenance.

ConocoPhillips reported that operational problems at its Borger, Texas refinery led to flaring on Tuesday. A report filed with the Texas Commission on Environmental Quality did not specify the problem or the unit involved.

Shell is restarting a gasoline hydrotreating unit at its Deer Park, Texas refinery on Wednesday. The start-up coincides with the resumption of gasoline production from the 67,000 bpd fluid catalytic cracker. The catcracker is expected to return to normal production by the weekend. The unit was shut on June 15 after a heater steam coil ruptured.

China's Jinling refinery will reduce runs by 3% in July in order to minimize losses due to high crude oil costs and government capped retail prices. It plans to operate at 224,000 bpd or 83% of its total capacity compared with 231,000 bpd in June.

China's Qilu Petrochemical Corp will cut crude processing rates from record levels in July due to soaring crude oil costs, potentially tightening the domestic market. It will cut runs by 6% to 200,000 bpd in July compared with 212,000 bpd this month.

Production News

Enbridge Inc's proposed Southern Access Mainline Expansion and Extension Program will give Canadian crude more access to markets in the US. Earlier, Enbridge announced an open season to confirm shipper support for the program, which consists of three phases that could provide an additional 400,000 bpd of crude oil capacity on Enbridge's mainline system from Hardisty, Alberta to Chicago.

Iraq has awarded its first tender to sell crude from the Turkish port of Ceyhan in over a year. A source at Iraq's SOMO said Total, Repsol and ExxonMobil won the tender to lift Kirkuk crude. However unsatisfactory bids forced it to award only 2.63 million barrels out of the 4 million barrels it had tendered. Total and Repsol won a million barrels each while ExxonMobil will lift the remainder from Ceyhan between July 1-10.

The leaders of Norway's Federation of Oil Workers Unions and official with well service company BJ Services Co said they expect a resolution of an oil services conflict before strike action affects production. Earlier in the month, 140 OFS members working for BJ Services stopped working. OFS, Statoil and Hydro said there has been no impact on production. However if the strike action is prolonged through July, output from new wells may be delayed.

Calpine Corp said it has agreed to sell its domestic oil and gas properties for \$1.05 billion, the latest divestiture for the company as it works through an asset sale program to reduce its debt.

Chevron Corp is proceeding with technical studies on a new heavy crude project in Venezuela's Orinoco belt despite a recent series of tax increases on oil operations in the country. It said Chevron and Repsol must still decide what kind of crude upgrading unit the project will need and if the synthetic crude produced at the upgrading unit will be refined in Venezuela or exported.

OPEC's news agency reported that the OPEC's basket of crudes fell to \$53.82/barrel on Tuesday, down from \$54.26/barrel on Monday.

France's Energy Ministry reported that the country's oil product consumption in May increased by 6.8% year on year to 7.48 million tons as lower prices led to rebuilding of heating oil and fuel oil stocks and higher diesel sales. Heating oil sales increased by 5.3% on the year to 828,000 tons.

ExxonMobil Corp has reached a tentative agreement with the government of Indonesia on terms and conditions to tap large reserves in the Cepu block, estimated to hold 500 million barrels of oil. It said its Indonesian subsidiaries have signed a memorandum of understanding with Pertamina and the Indonesian government.

An official at Sinochem Corp said China plans to use its national petroleum reserve to offset the country's exposure to market volatility. He said the reserves will be used to cope with short term fluctuations and maintain stability in the market.

Kazakhstan said it would have the first right of refusal on any sale of assets by PetroKazakhstan. Kazakhstan's Energy and Mineral Resources Minister Vladimir Shkolnik said the Kazakh government

would also consider whether to buy the Canadian firm at a market price if it gets such a proposal from PetroKazakhstan itself.

Croatia delayed the Druzhba-Adria pipeline project in light of a decision to rework an environmental study. The project was initially planned to start in late 2003 but was delayed to due to environmental concerns in Croatia. The pipeline project, including Russia, Belarus, Ukraine, Slovakia, Hungary and Croatia, envisages a gradual increase of crude transport from 5-15 million tons a year or 100,000 bpd to 300,000 bpd.

High oil prices are encouraging an increasing number of companies to seek new oil supplies in West and North Africa. Production from West Africa is expected to rise sharply in the next 10 years as foreign investment floods in, which high prices meaning better potential returns on riskier projects.

Market Commentary

The crude market gapped lower from 57.90 to 57.60 as the market continued to take profits. The market backfilled its gap as settled in a range from 57.60 to 58.10, its intraday high, ahead of the release of the weekly petroleum stock reports. However the market erased its early gains following the release of the DOE and API reports, which showed builds across the board. Both the DOE and API reported unexpected builds in crude stocks while the DOE also reported a large build of over 9 million barrels in total petroleum stocks, which pushed the market to a low of 56.90. The oil market however bounced off its low and settled in a sideways trading pattern during the remainder of the session. The market settled down 94 cents at 57.26. Volume in the crude was excellent with over 242,000 lots booked on the day. Meanwhile, the product markets also remained pressured following the release of the inventory reports. The gasoline market settled down 4.03 cents at 158.45 after it retraced nearly 38% of its move from a low of 138.50 to a high of 168.70 as it traded to a low of 157.50 on the close. The heating oil market settled in a range after it posted its range from 162.50 to 158.50 within the first hour of trading. The market sold off to its low in light of the builds reported in distillate stocks. Volumes in the product markets were good with 52,000 lots booked in the gasoline market and 56,000 lots booked in the heating oil market.

The oil market on Thursday may retrace some of its sell off early in the session. However it is seen remaining under pressure in light of the continuing stocks builds. The market is technically seen trading lower as its daily stochastics continue to trend down. The market is seen finding initial support at its low of 56.90 followed by 56.40. More distant support is seen at 55.80 and 55.00. Meanwhile resistance

is seen at its high of 58.10 followed by 59.00 and its gap from 59.75 to 60.10.

Technical Analysis		
	Levels	Explanation
CL 57.26, down 94 cents	Resistance 59.75 to 60.10, 60.95 58.10, 59.00	Gap (June 28th), Previous high Wednesday's high
	Support 56.90 56.40, 55.80, 55.00	Wednesday's low 38% retracement(49.05 and 60.95), Previous low, 50%
HO 160.16, down 1.88 cents	Resistance 166.97 162.00, 162.50	Tuesday's high Wednesday's high
	Support 158.50 156.60, 155.74, 155.00	Wednesday's low Previous low, 38%(135.10 and 168.50), Previous low
HU 158.45, down 4.03 cents	Resistance 162.80, 166.80 161.00	Wednesday's high, Thursday's high
	Support 157.50 157.16, 154.30, 153.60	Wednesday's low 38% retracement(138.50 and 168.70), Previous low, 50%